

Why Trade Agreements Matter: The Case for U.S. Dairy



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Presentation Overview

- USDA Supply and Demand Outlook for U.S. Dairy
- Structural Change in the U.S. Dairy Sector
- Why Trade Agreements Matter for U.S. Dairy

USDA Dairy Market Outlook

- U.S. milk production in 2016 estimated to increase from 2015. Record production is projected for 2017.
- U.S. dairy exports projected to rebound, while U.S. dairy imports start to decrease slightly.
- Some improvement in price forecast for 2017 for cheese, NDM and whey; butter prices projected to decline.
- Ending stocks for 2016 and 2017 reflect relatively high stocks of butter and cheese; 2017 ending stocks projected to decline slightly from 2016 forecast levels (both fat basis and skim-solid basis).

USDA Dairy Market Outlook: U.S. Production

	2012	2013	2014	2015	2016F	2017F
Billion pounds						
Milk	200.3	201.7	206.1	208.6	212.2	216.1
Million metric tons						
Milk	91.0	91.3	93.5	94.6	96.3	98.0

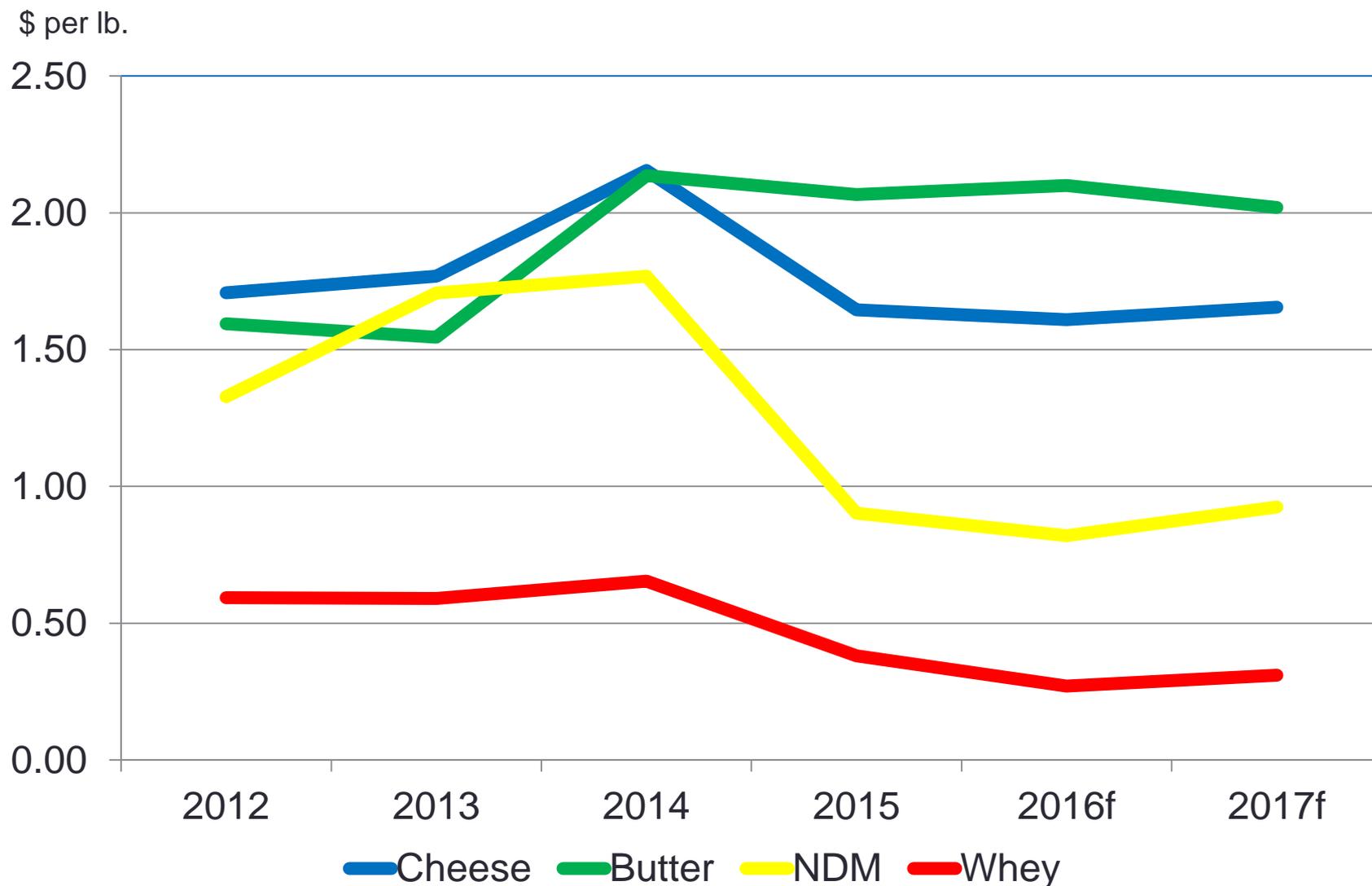
USDA Dairy Market Outlook: U.S. Trade

	2012	2013	2014	2015	2016F	2017F
Billion pounds, fat basis						
Exports	8.8	12.4	12.4	8.8	8.7	8.9
Imports	4.1	3.7	4.3	5.7	7.0	6.9
Million metric tons, fat basis						
Exports	4.0	5.6	5.6	4.0	3.9	4.0
Imports	1.9	1.7	2.0	2.6	3.2	3.1

USDA Dairy Market Outlook: U.S. Trade

	2012	2013	2014	2015	2016F	2017F
Billion pounds, skim-solid basis						
Exports	33.3	38.5	39.0	37.3	37.6	38.1
Imports	5.7	5.3	5.6	6.0	6.6	6.3
Million metric tons, skim-solid basis						
Exports	15.1	17.5	17.7	16.9	17.1	17.3
Imports	2.6	2.4	2.5	2.7	3.0	2.9

USDA Dairy Market Outlook: U.S. Prices

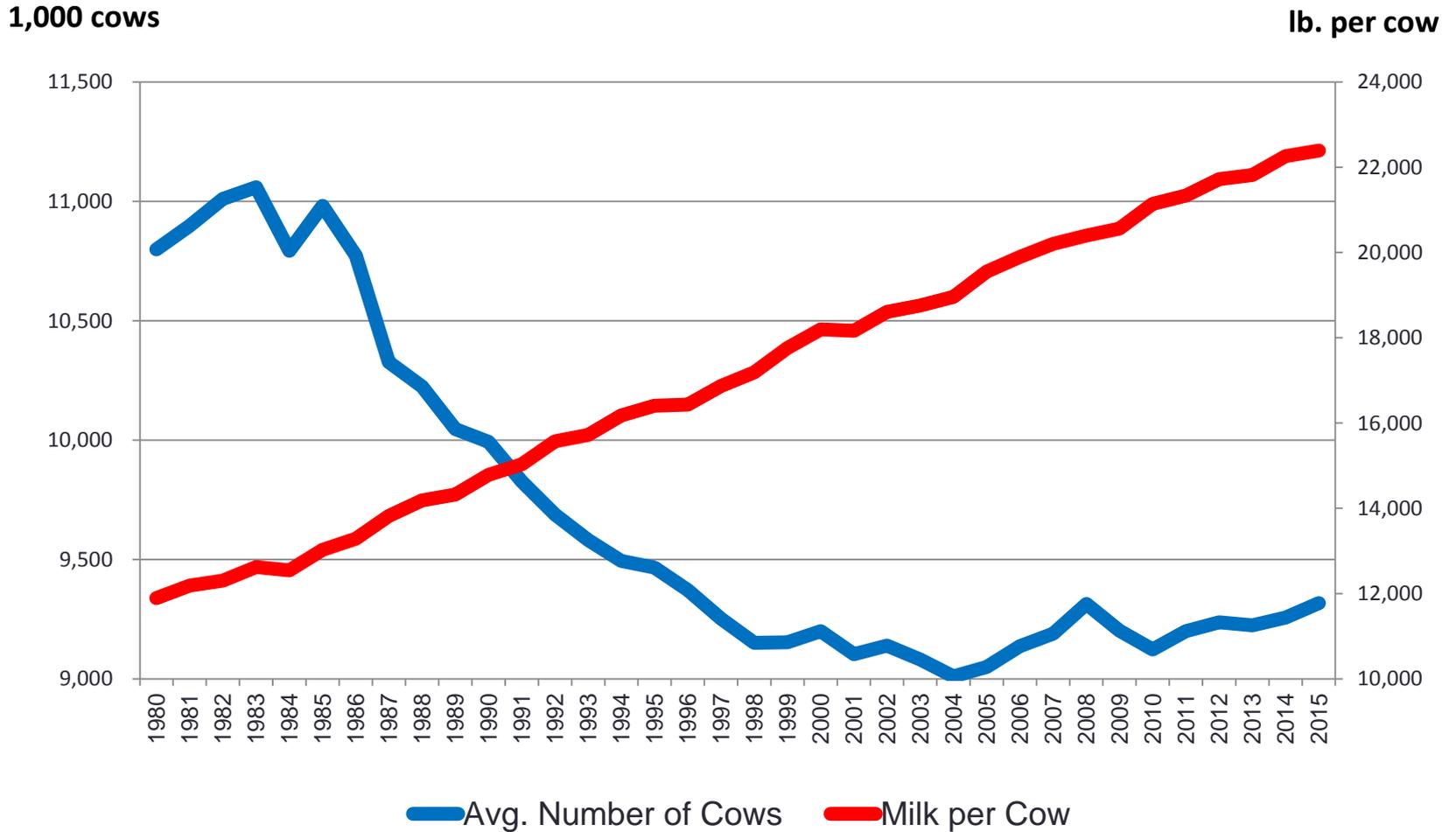


Source: September 2016 WASDE; 2016 and 2017 forecast prices are midpoints of the forecast

U.S. Dairy Sector and Structural Change

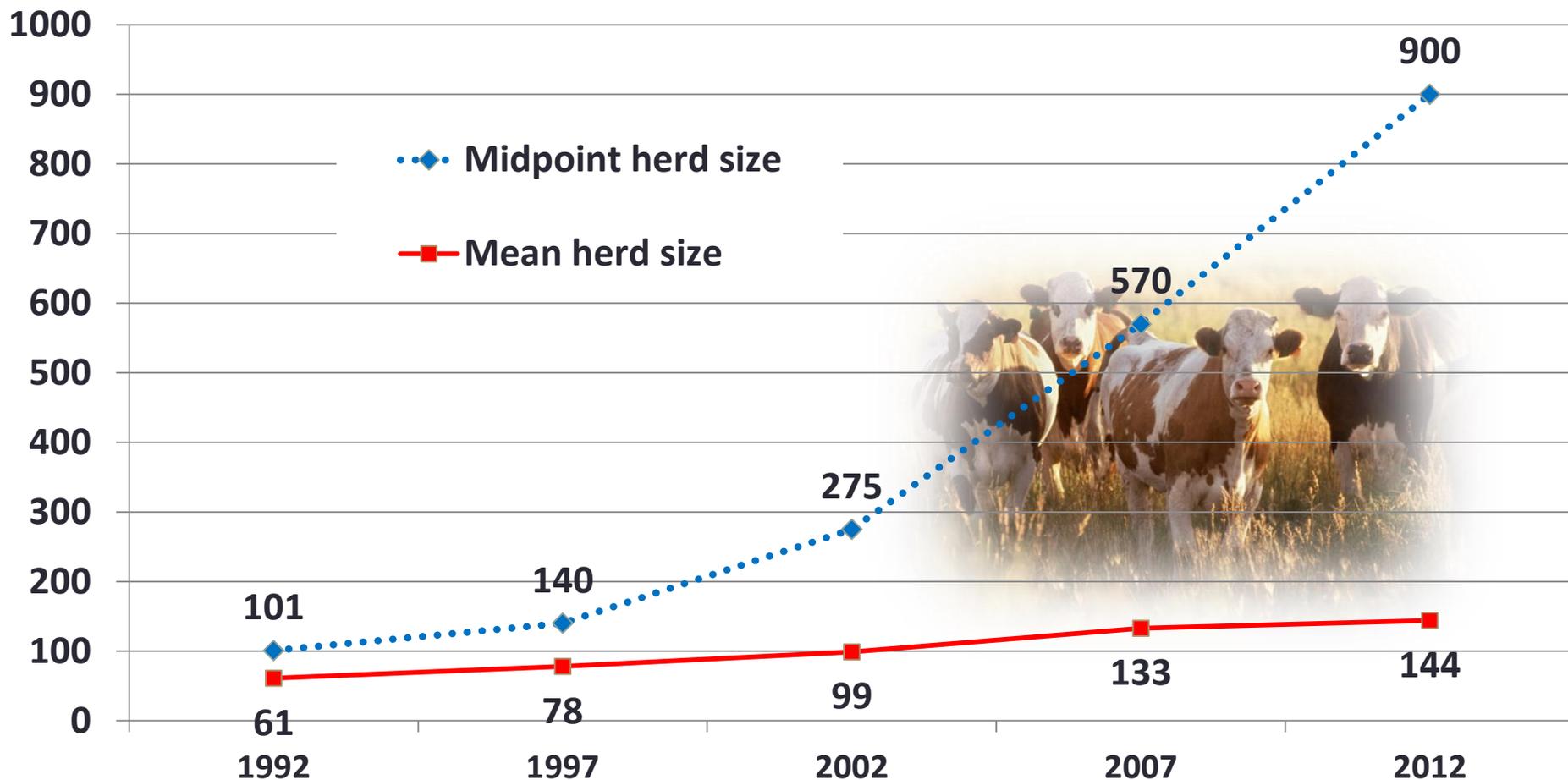
- Increased productivity through economies of scale; lower cost of production and improved competitiveness
- Well-developed processing sector known for product innovation
- Shift in U.S. dairy support programs from market price support to margin protection
- Increasingly export-oriented; well positioned to respond to increased overseas demand and new market openings through trade agreements (including FTAs)

U.S. Milk Yield and Cow Inventory



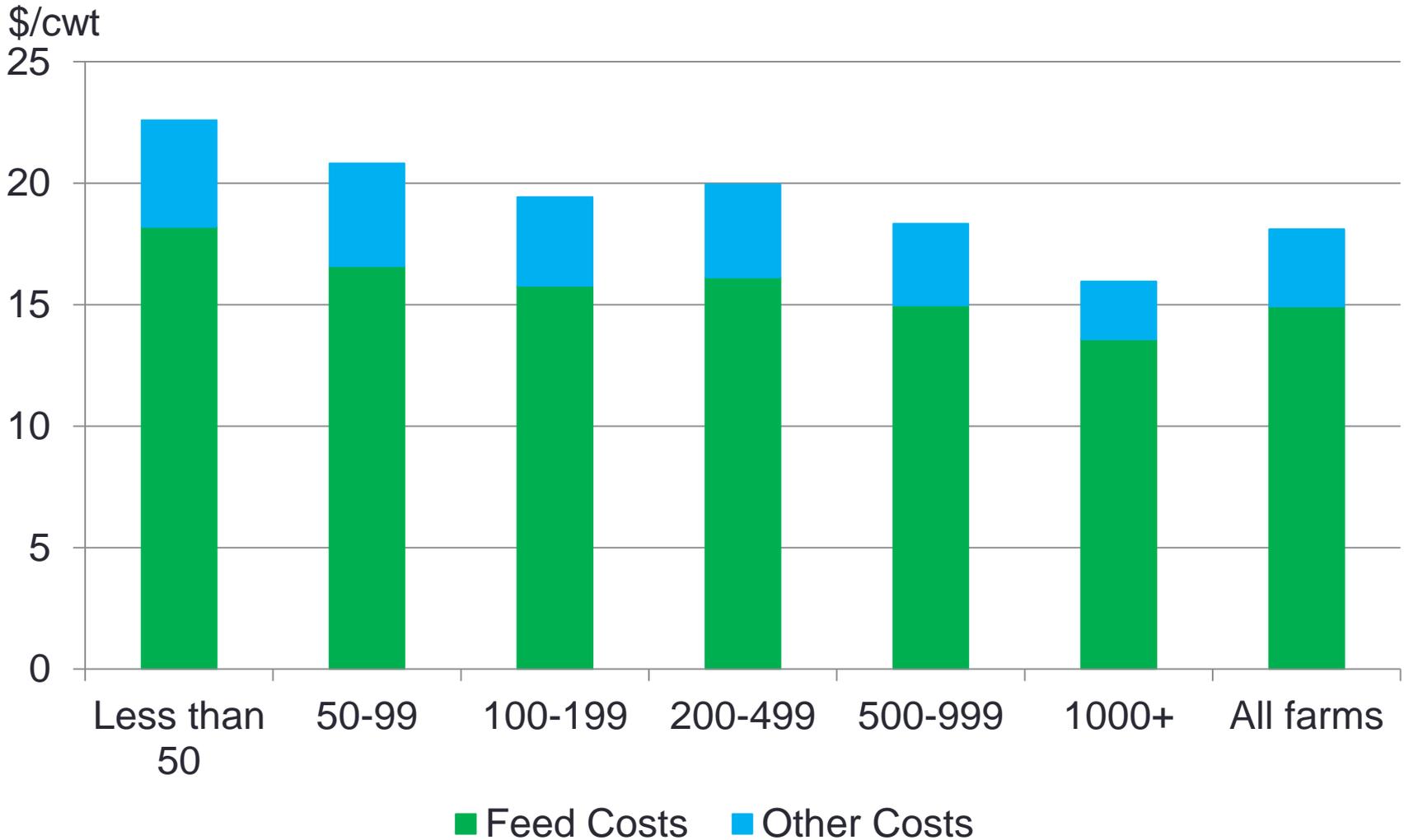
Changing structure of U.S. dairy: The shift to larger herds...

Number of cows

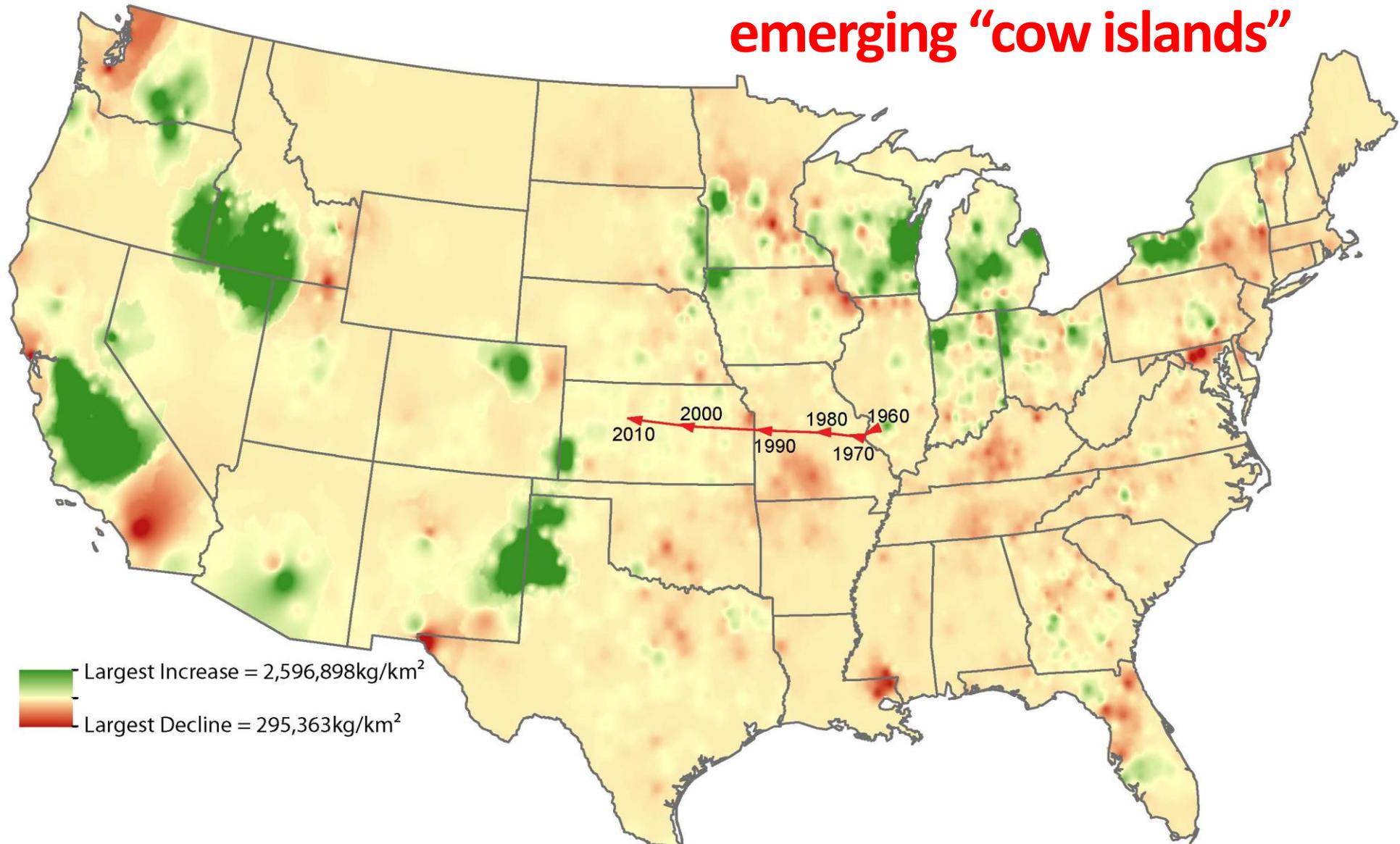


Note: Half of all milk cows are in herds that are larger than the midpoint size, and half are in smaller herds. Source: USDA, Economic Research Service using USDA, National Agricultural Statistics Service, Census of Agriculture data.

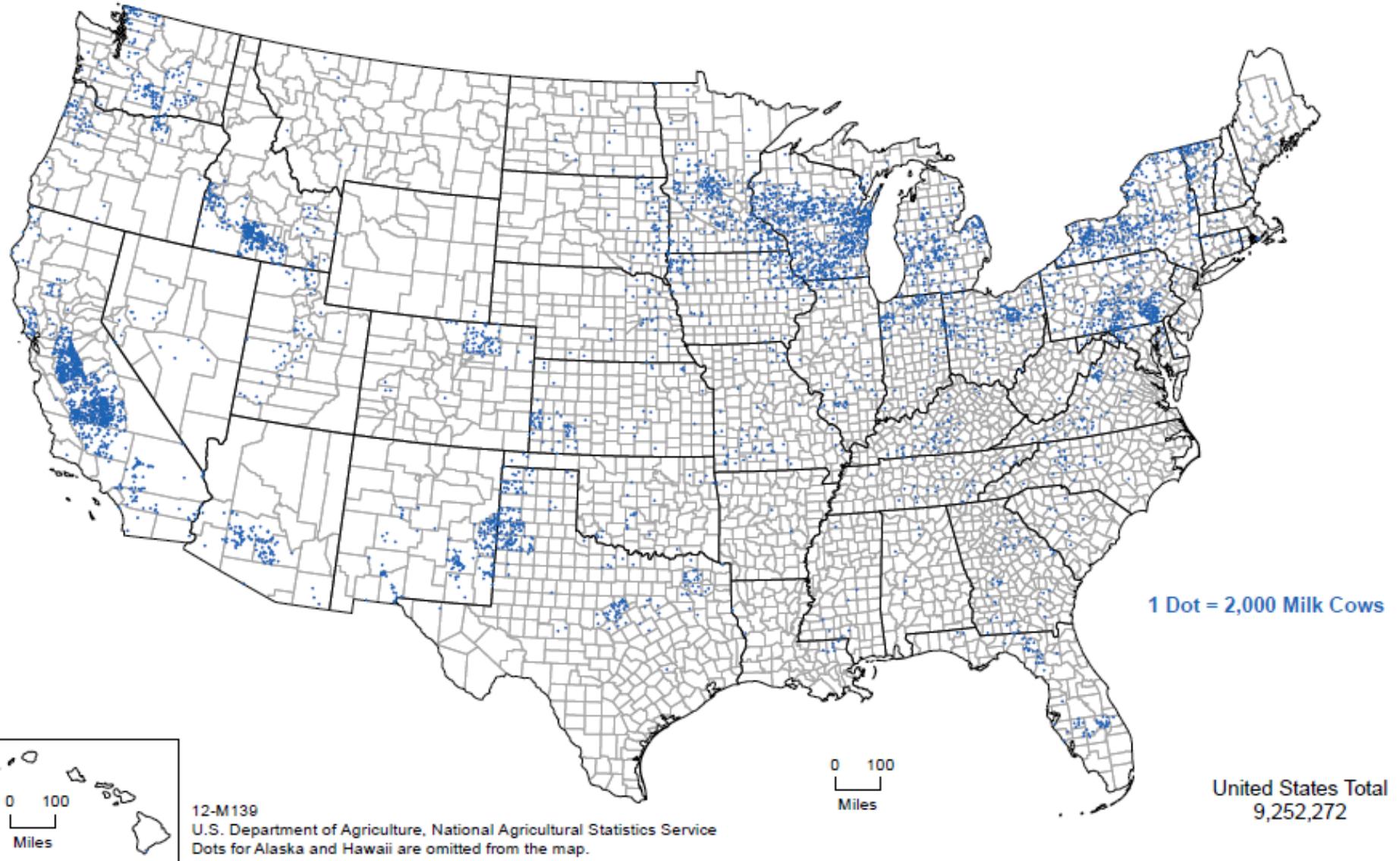
...with lower costs of production



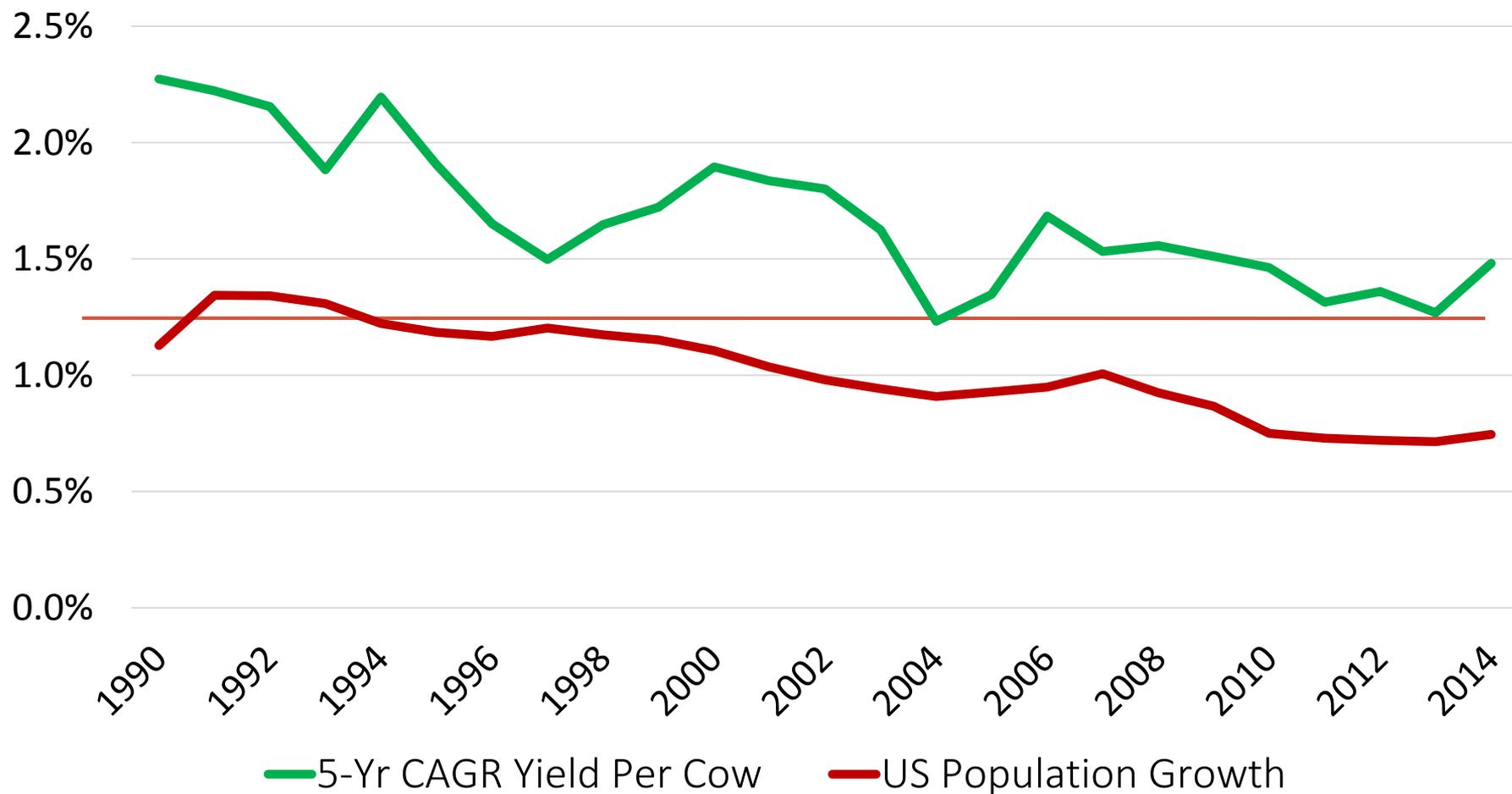
Dairy production concentrating in new areas: emerging “cow islands”



2012 Milk Cow inventory

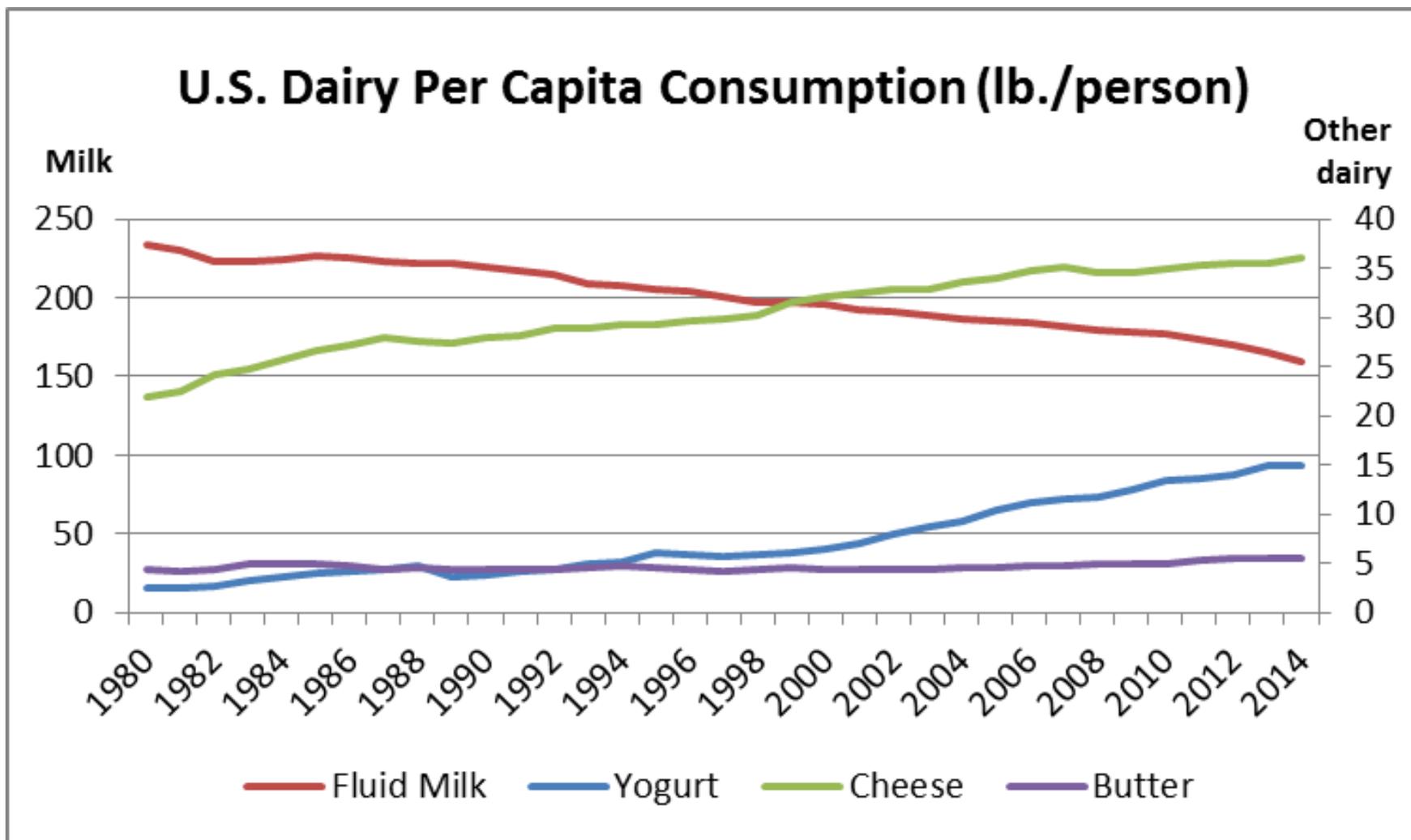


Cow productivity gains outpace U.S. population growth rate



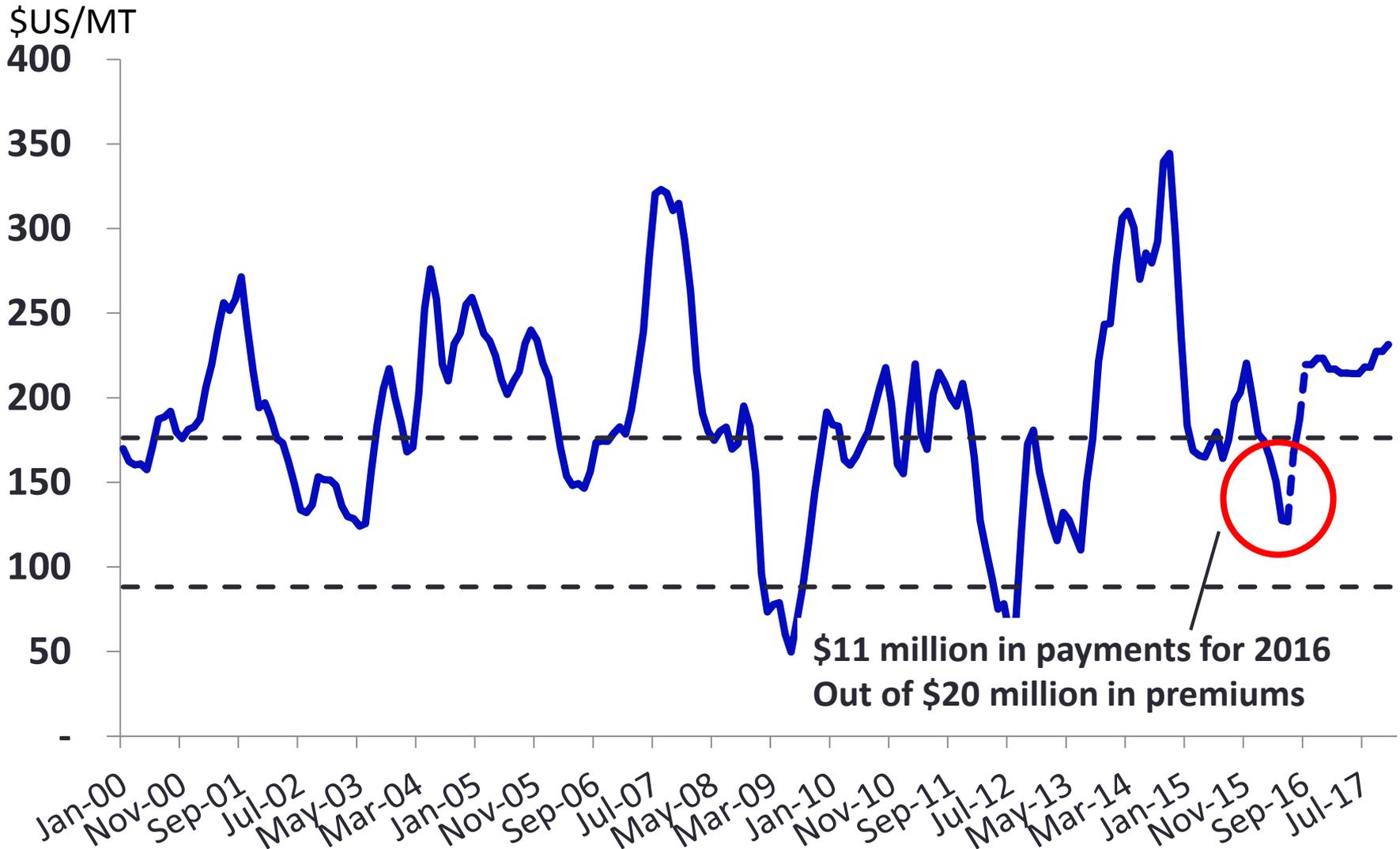
Source: Dr. Marin Bozic, University of Minnesota.

U.S. consumption of dairy products is also changing



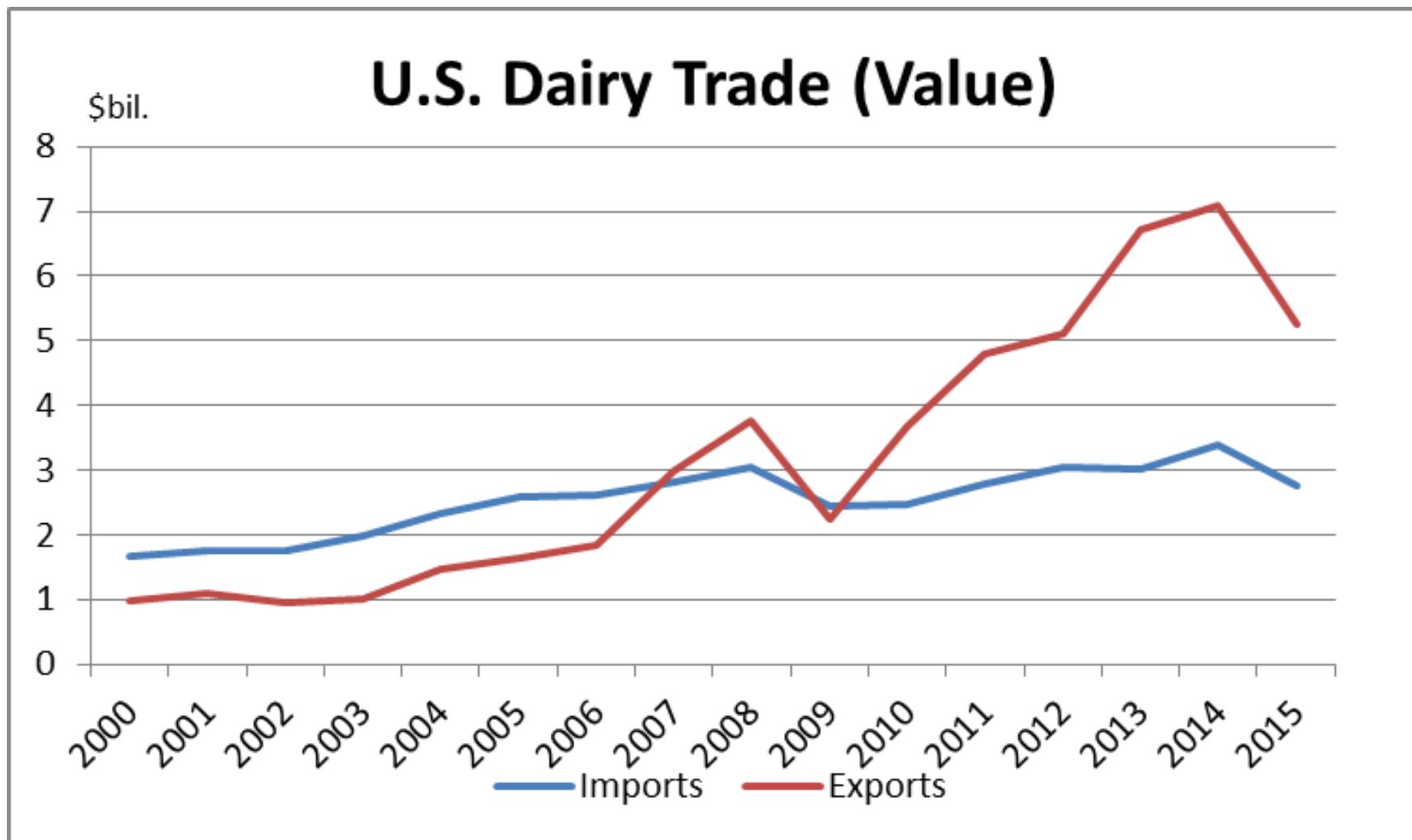
Source: USDA/ERS.

Dairy margins recently fell within MPP coverage levels

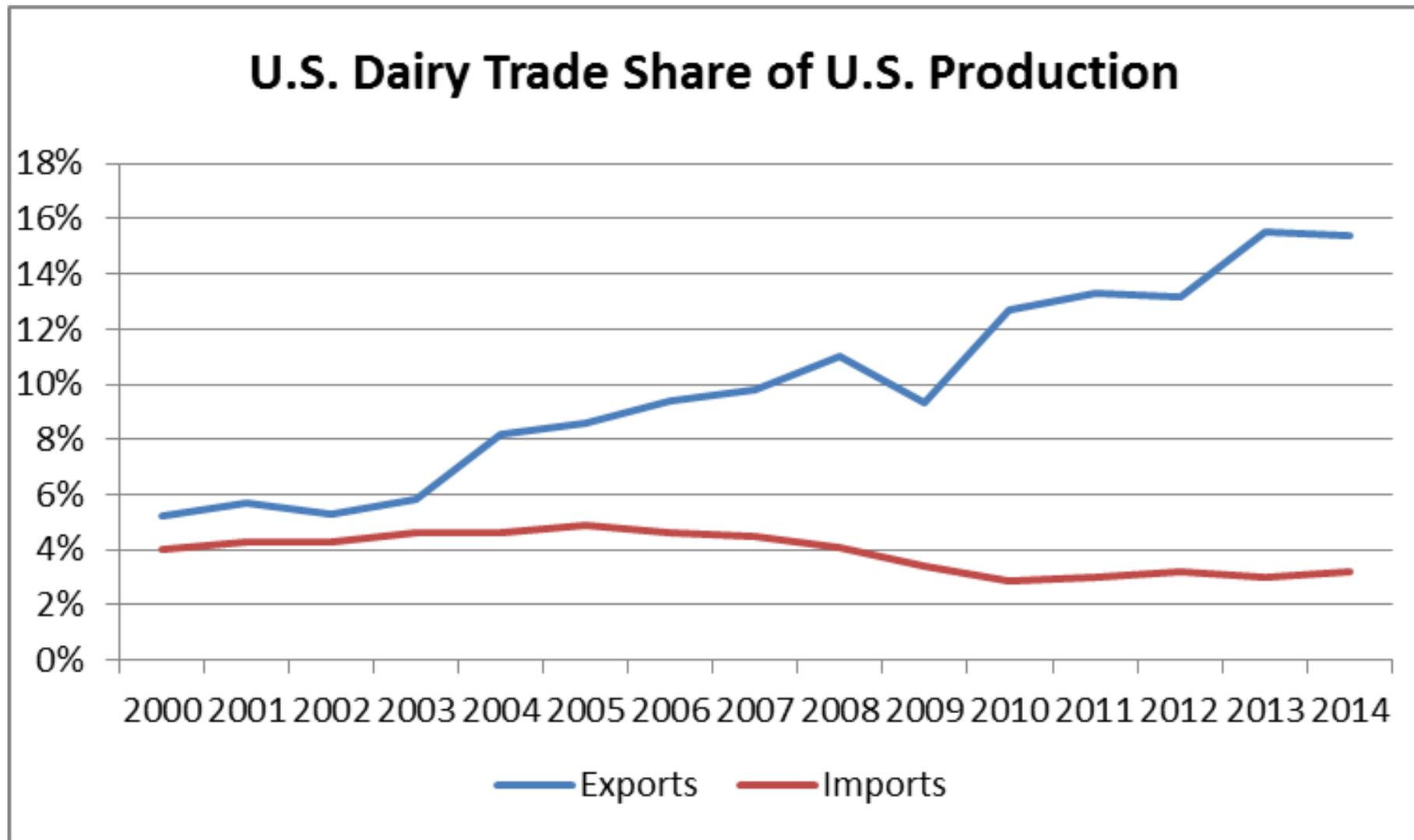


Source: U.S. Department of Agriculture, Farm Service Agency.

U.S. moves from net dairy importer to net exporter

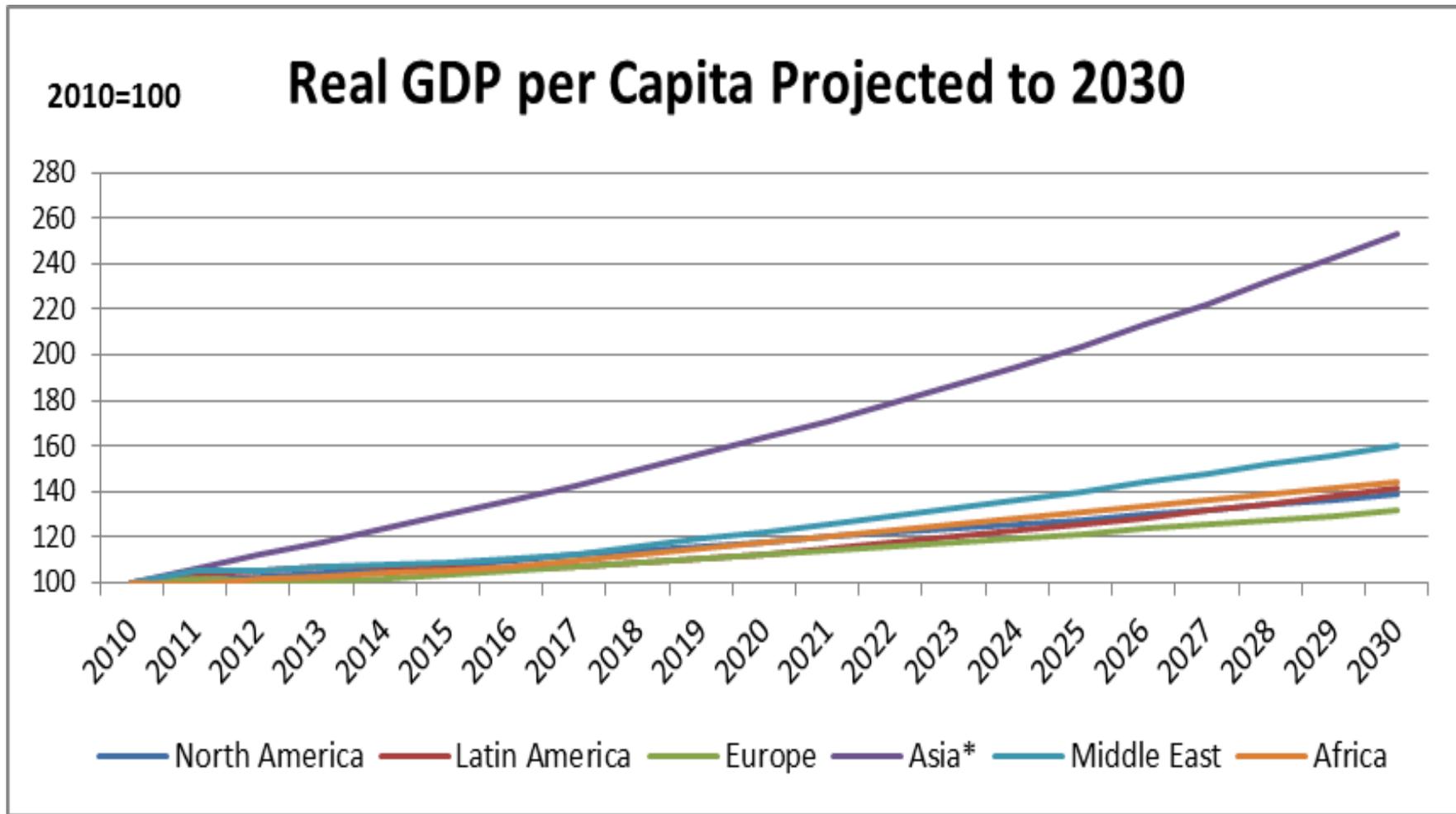


U.S. dairy exports account for nearly 15% of production



Source: USDEC (calculated on a total milk solids basis)

Global dairy market growth is in Asia



Source: USDA/ERS macroeconomic database. *Asia excludes Japan

Why FTAs and Trade Liberalization Matter

- U.S. dairy exports to FTA partners have grown from \$476 million in 2000 to \$2.8 billion in 2015. The rate of growth in trade with FTA partners has exceeded that for U.S. dairy exports to all markets.
- According to NMPF/USDEC, this increased trade from FTAs helped bring an additional \$8.3 billion to the U.S. dairy industry over 10 years and contributed to higher U.S. milk prices and incomes during that period.
- Many U.S. FTA partners are developing countries, where demand growth is expected to be the strongest.

Why FTAs and Trade Liberalization Matter

- Most U.S. FTAs are with partners in the Western Hemisphere region.
 - NAFTA, CAFTA-DR, Colombia, Peru, Panama, Chile
 - Australia, South Korea, and Singapore the only U.S. FTAs in Asia-Pacific region
- Other dairy exporters are negotiating (or have implemented) preferential trade agreements in the Asia-Pacific region.
- Not only do these other agreements provide preferential access, they also affect how certain rules are written (SPS, GIs).

Gains from Further Liberalization - TPP

- The Trans Pacific Partnership (TPP) was concluded on Oct. 5, 2015 and signed on Feb. 4, 2016.
- The agreement covers 12 countries, many of which are in Asia and are new FTA partners – Japan, Malaysia, Vietnam, Brunei, and New Zealand.
- The agreement grants significant new and enhanced market access into these markets. It also provides new access into Canada, an existing FTA partner.
- Most tariffs will be eliminated; for sensitive products there will be longer transitions and some TRQs and limited safeguards

Gains from Further Liberalization - TPP

- TPP goes beyond past FTAs to establish strong rules for trade in agricultural products:
 - SPS: enforceable rules
 - Geographical Indications (GIs): stronger due process and transparency disciplines
 - Agricultural Biotechnology: first time covered in a FTA
 - Organic Agriculture: encourage mutual recognition

TPP Dairy Analysis

- Several quantitative studies of U.S. dairy trade effects resulting from TPP
 - OCE preliminary results: butter, cheese, whey, powder
 - American Farm Bureau Federation: butter, cheese, whey, powder; net exports
 - U.S. International Trade Commission: all dairy products

Study	U.S. Exports	U.S. Imports
	\$million	
OCE	150-275	38-97
AFBF	131	na
USITC	1,846	349

Sources: USDA/OCE preliminary analysis (forthcoming); AFBF, "The Trans-Pacific Partnership, Working for the United States," Feb. 2016; and USITC, Trans-Pacific Partnership Agreement: Likely Impact on the U.S. Economy and Specific Industry Sectors, May 2016.

Other Dairy Trade Issues

- SPS/TBT Issues
 - China (new infant formula regulations)
- Geographical Indications (GIs)
 - Restrictions on the use of common food names in the EU and other markets
- Domestic policies and regulations in other countries that affect trade
 - Canada's special milk class pricing system